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Current Trends on the World Textile Market and the Competitiveness of the Serbian Textile Industry

Abstract

International trade in textiles and clothing has showed more dynamic growth in the last decade in terms of trends in the global production of textile and clothing products. Developing countries, especially those from the Asian region, are the world's leading textile exporters, which is one of the key levers of their rapid economic growth, while the textile industry in Serbia is among the leading export sectors of the country's economy despite the serious development issues brought about by the transition process. For the purpose of this paper, the particular analytical tools of the methodology developed by the International Trade Centre (ITC), the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD) were selected. The simplified national export profile – NEP, which gives an overview of the national economy's export performance by product (both in static and dynamic terms), was used for the analysis of Serbia's textile industry. In addition, the Balassa index of revealed comparative advantage (RCA) was also used in this paper. Analysis of the competitiveness of the aforementioned industry regarding relative changes in its share in the world market indicates positive changes of Serbia in this area. Relevant indicators are satisfactory, as well as the industry's specialisation in relation to the global average and export performances of the main export product. However, speaking from the perspective of the export structure, especially trends related to the share of subcontracting, i.e. outward processing, it is clear that the competitiveness of the textile industry in Serbia is primarily based on pricing.

Key words: textile industry, competition, market, import, export.

■ Introduction

The recent decades in terms of the development of the textile industry at the global level have been marked by processes of intensive structural adjustment which has resulted in the transfer of production to developing countries. This initiated the greater involvement of this industrial branch in international trade flows, with the constant strengthening of the exporting position of the new leaders in production, which, again, led to major changes in the regional distribution of exports and imports of textile products.

The textile industry in Serbia still has a modest share in the global structural changes. For the most part, this is due to its marginalisation in the economic structure of Serbia which occurred during the last ten years of the country's transition. The relative share of textile and clothing products in the creation of the newly added value of the processing industry in Serbia is considerably lower than in other countries with a similar development level, which indicates structural discrepancies in its development. Analysis of the competitiveness issues regarding the textile industry in Serbia is particularly important in a situation where the Serbian economy opted for altering its growth model, which used to be based on intensive borrowing – foreign loans and

funds obtained from privatisation and foreign grants.

■ Research methodology

In order to choose the most appropriate methodology to be applied in this research paper, relevant literature and Internet sources of information were consulted. The particular analytical tools of the methodology developed by the International Trade Centre (ITC), the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD) were selected. The decision to examine the competitiveness of the textile industry in Serbia in the context of current changes in the global textile market calls for the use of dynamic analytical tools of market-share analysis, such as the absolute change in the world market share and change in the world market share [ITC, 2000:3]. By using these indicators, we analysed both absolute and relative changes in the export value share of Serbia's textile industry in the total world imports of textile products, as well as imports of these goods to the EU market. In addition, for the purpose of this study the Balassa index of revealed comparative advantage (RCA) was also used.

As far as ITC methodology is concerned, the following instruments were used: simplified national export profile - NEP

which gives an overview of the national economy's export performance by product (both in static and dynamic terms) over the period of 2001-2011, taking into consideration the fact that the value of exports of the Serbian textile industry in the first year of the period mentioned was relatively low [Jefferson Institute, 2006:33-35].

The research was also rounded out by qualitative analysis of the main structural trends in the textile industry in Serbia from the perspective of the dominant factors of competitiveness.

■ Current changes in the world textile market

The development of the textile industry in the world over the last 40 years is a typical example of production that has undergone major changes, which some would even call drastic, in terms of organisation, production structure, technology and sales methods. From a typical labor-intensive industry which practically exhausted its development potential, by introducing large investments while reducing the workforce in countries that had been former leaders of world textile production, it has been transferred into one which has taken on the characteristics of capital-intensive activities. While the process of structural adjustment was underway in the developed countries regarding this industrial branch, followed by production reduction and labour force downsizing, specialisation and constant technological innovation, the promotion of new products and full product lines, at the same time the process of transferring production to other countries and the establishment of new centers of the global textile industry, whose main advantage, in addition to low labour costs, were significant sources of cheap raw materials, was in progress. This led to a greater involvement of the textile industry in global international trade flows, marked by the continuous strengthening of the export position of a particular group of developing countries, which resulted in major structural changes in the regional distribution of textile production.

Textile industries from developing countries, especially from the Asian region, entered the world textile market, which, due to significantly lower labour costs and domestic production of natural textile raw materials, rapidly threatened the

monopoly of developed countries in the international trade of textiles. Protectionist measures introduced by developed countries in order to protect their markets and manufacturers, to some extent, reduced the competitive pressure exerted by developing countries and slowed down their conquest of the world textile market. However, the constant pressure of the developing countries initiated the restructuring of the textile industry in the developed countries, which was necessary for survival on both the domestic and international markets. The direction of the restructuring has changed over time, ranging from the technological modernisation of mass production and the implementation of the results of scientific research concerning the production of synthetic fibers and new technologies in the spinning, weaving and finishing of textiles to the shifting of the production of standard, mass products to developing countries in the form of subcontracting, the closing of unprofitable production facilities and the specialisation of production.

The reason for reducing the relative share of the textile industry in the newly added value of the manufacturing industry in the world can be traced back to the relatively lower production growth rates over the last 40 years, compared to the rapid growth of other propulsive branches. Due to the uneven pace and direction of structural changes in national economies, differences in the relative share of the textile industry in the newly added value of the manufacturing industry are evident in developed and developing countries. While the production of textiles in the manufacturing industry structure in the UK, USA, Japan, Spain and other developed countries has a relative share of 1.2 to 1.8% and the manufacturing of garments - 0.6 to 2.2%, in China, India, Turkey and other developing countries, which have a dynamic and strong textile industry, the share of the production of textiles is between 6 - 10%, while the production of garments account for 3.5 to 8% [UNIDO, 2010:18-29]. The relative share of the textile industry in Serbia is low, which is an indicator of certain halts in its development over the past 20 years.

As far as the clothing industry is concerned, the most significant changes in the world have occurred in the structure of production through the development of product lines such as leisurewear, jeans and sportswear. A relative decline

in the manufacturing of the classic apparel range, particularly men's suits, men's coats, women's dresses and women's suits has been recorded, while the production of separates, especially jeans and jackets, has shown an increase.

The current competitive struggle in the textile product market at the global level has brought about a number of innovations in production technology, its organisation and sales logistics. The combined effects of such technological advances have enabled the spatial and functional fragmentation of textile production and its vertical disintegration in terms of performing labour intensive parts of the production in countries with lower labour costs. The functional re-integration of the production process was made possible due to liberalised international trade channels, which led to the creation of supranational and global production and supply chains. A group of leading transnational corporations play a major role in organising and coordinating these global production systems [Gereffi, G. and Memedovic, O., 2003:35]. In order to maintain and increase competitiveness, leading companies transfer their labour intensive processes to developing countries through strategic outsourcing and offshoring, while maintaining complex operations and capital-intensive processes in their countries.

■ International trade in textiles

The growth dynamics of international trade in textile goods in the last twenty years exceeds that in general production in the world. Exports and imports in both sectors of the textile industry after a halt in the period 1995 - 2000, when they achieved an average growth rate of 0.6 and 1.4%, respectively, saw a trend of rapid growth, and in the period 2005 - 2008 average growth rates of 7 and 6.6% were achieved [Memedovic, O., UNIDO, 2010:56-59]. After a slight decline in 2009, the growth trend continued even at a greater pace, with average growth rates of over 10% per annum. The most important participants in the world trade of textiles are developing countries of Asia, led by China and the European Union.

By 2005, the European Union had increased its relative share in the world exports of textiles and clothing by 32.1%, and become the biggest exporter. In the next six years, during which a certain slowdown in growth occurred, the EU

Table 1. Textile and clothing (T&C) import/export trends in billions \$; **Source:** Calculations performed by the author based on data provided by the International Trade Centre: Trade statistics, available at www.intracen.org (accessed: 25 June 2012).

| | Region - country | 1990 | % | 2001 | % | 2005 | % | 2008 | % | 2011 | % |
|-------------|------------------------------|-------|------|-------|------|-------|------|-------|------|-------|------|
| T&C EXPORTS | World | 212.5 | 100 | 355.0 | 100 | 481.4 | 100 | 612.1 | 100 | 770.6 | 100 |
| | E-27 | - | - | 112.9 | 31.8 | 156 | 32.4 | 192.6 | 31.4 | 203.8 | 26.4 |
| | USA | 7.6 | 3.5 | 19.6 | 5.5 | 17.4 | 3.6 | 16.5 | 2.7 | 22.5 | 2.9 |
| | Other developed countries | - | - | 20.4 | 5.7 | 27.8 | 5.7 | 38.3 | 6.2 | 30.8 | 3.9 |
| | Developing countries of Asia | 76.6 | 36.0 | 145.9 | 41.1 | 225.6 | 46.8 | 318.2 | 51.9 | 448.3 | 58.2 |
| | China | - | - | 50 | 14.1 | 110.3 | 22.9 | 168.7 | 27.5 | 245.1 | 31.8 |
| T&C IMPORTS | World | 220 | 100 | 376.4 | 100 | 508.4 | 100 | 638.5 | 100 | 719.1 | 100 |
| | E-27 | - | - | 140.6 | 37.3 | 203.1 | 39.9 | 261.7 | 41.0 | 268.2 | 37.2 |
| | USA | 9.5 | 4.3 | 83.1 | 22.3 | 102.6 | 20.2 | 105.6 | 16.5 | 108.3 | 15.0 |
| | Other developed countries | - | - | 28.0 | 7.4 | 35.6 | 7.0 | 34.4 | 5.3 | 73.3 | 10.2 |
| | Developing countries of Asia | 41.8 | 19.0 | 50.0 | 13.3 | 59.7 | 11.7 | 75.2 | 11.7 | 171.4 | 23.8 |
| | China | - | - | 15.8 | 4.2 | 22.7 | 4.5 | 25.2 | 3.9 | 37.1 | 5.1 |

relative share in world exports decreased to the level of 26.4% in 2011, due to which the EU lost its primacy in this area of business. The trend of decline in the relative share of this sector in the world exports has also been recorded in the United States since 2001, while in other developed countries such a declining trend occurred in the period after the 2009 world economic crisis. The Asia Region, led by China and other developing countries, has recorded the highest growth rate of exports in this sector since the 1990s, taking the leading role in international trade in 2001. In the last ten years, the relative contribution of this region has been growing rapidly and in 2011 it amounted to 58.2% of world exports of textile and clothing goods. Simultaneously, after 2008, China became the world's leading exporter of these products with a relative share of 31.8%. From the aforementioned facts we can conclude that the Asian developing countries have taken the lead in the sector of international trade in the last ten years.

The most important global importer of textiles and clothing is the European Union, with an increase in the relative share which amounted to 41% in 2008. Over the last three years, as a consequence of the economic crisis, there has been a relative decline in imports in the European market. Moreover the USA has recorded a continuous decrease in its relative share in world imports of these products in the last ten years. A significant increase in the relative share of world imports in this sector was recorded by the developing countries of Asia in the period after 2008. Generally this is due to increased subcontracting/outward processing, which

contributed to the import of textile raw materials.

Table 1 shows the movements in exports and imports of textiles and apparel in the world, where the calculation of the export and import of Chinese T & C was included in the calculation of exports and imports of T & C of the developing countries of Asia.

Dynamics and regional structure of the Serbian textile industry's foreign trade

The volume of foreign trade exchange of the textile industry in Serbia has been constantly growing since 2000. The dynamic increase in exports and, especially, imports, was followed by a deficit in international trade, which in 2008 peaked at 373 \$ million. However, in the last three years of this period (2000 - 2008), significantly lower values of the international trade deficit were recorded. Except for the first two years of the period mentioned, when a surplus was recorded due to the low volume of trade with the world, the deficit had a tendency to grow despite the continual increase in exports, which is a clear indicator of its structural character [Raicevic, V. and Corovic, E., 2010:89]. The decline in the production was compensated by importing raw materials and fabrics, which is the major source of the deficit. In addition, the subcontracting/outward processing accounted for the growing volume of exports; however, it was accompanied by the import of raw materials, which greatly reduces the effects of this form of export. In the last decade, the export performance of the textile industry in Serbia

has been moving in the opposite direction compared to other economic indicators of this industry. Despite the decline in production and employment, there was an absolute increase in exports from 228 \$ million in 2001 to 657 \$ million in 2008. In the subsequent three years the growth halted and in 2011 it dropped to the sum of 615 \$ million. Although the volume of exports from 1990 has not yet been reached, its relative participation in the total annual revenue of this branch has significantly increased. The relative growth of exports does not give a complete realistic picture of the degree of the improvement in the situation in this area due to the low volume of exports in the initial year of the period observed and the inclusion of the exports realised to the former Yugoslav republics in the calculation of the relative growth of exports. However, it cannot be denied that there is a positive and more dynamic trend in Serbian trade of textiles compared to the international one. In the first years of the 21st century, which were characterised by the reduced volume of foreign trade, exports of the textile industry had a high share in the total exports of the country, averaging above 10%. After the 2002, this relative share stabilised at 6 - 7%. Nevertheless the textile industry kept its ranking among the top 5 of the country's exporting industries.

Imports of the textile industry in Serbia in the first five years of the aforementioned period observed grew similarly to exports. Since 2004, they significantly increased as compared to exports, and in 2011 amounted to 897 \$ million, thus reaching the highest absolute value. In the period observed, imports of this industry were always just over 4% of the total imports of the country. The level of import coverage by export, after a short period of surplus, is generally over 60%, which is much higher than the average level of the import coverage by the export of the whole industry of Serbia [Corovic, E., 2011:570].

Exports of textiles and clothing from Serbia to the EU over the last ten years has been over 70%, while in the period from 2006 - 2011 it reached 80%. Another region which is significant in terms of export activities of the Serbian textile industry is that which consists of the former Yugoslav republics, which accounts for 15 - 17% of the total export value. Exports to Russia in this period show a relative decline and in 2011 were about

3% of the total exports [calculations performed by the author based on data provided by the International Trade Centre, 2012].

In the period observed, due to an increase in subcontracting/outward processing, the relative share of imports from the EU reached a level of 50 - 55% of the total imports of the textile industry in Serbia. The highest recorded growth dynamics were related to imports from China, from 8 to 23% of the total relative share. At the same time, imports of textile products from Turkey fell from over 18 to about 10%.

The more dynamic export growth of the Serbian textile industry in the period from 2005 was mainly due to the increase in subcontracting [USAID, 2008:60]. The high relative proportion of outward processing/subcontracting in the total exports of textiles and clothing is an indicator of low non-price competitiveness. Namely it is evident that this sector of the Serbian economy made its comeback to the EU market by worsening the structure of its exports (*Table 2*).

Competitiveness of the Serbian textile industry

The ITC methodology tools selected for determining the levels and changes in competitiveness of the Serbian textile industry are primarily based on the analysis of fluctuations in its market share in the total world imports of textiles and clothing, as well as in imports to the EU-27 market, which is the most important international partner of the country concerning the economic sector mentioned. Between 2001 and 2011, the market share observed, after a considerable rise in the first year, shows a declining trend till 2005 at both levels. In relation to world imports, it amounts to about 0.06%, while its share of the EU market is on average 0.12%. In the period from 2005 - 2008 a significant increase in the relative market share of the textile industry in Serbia was recorded, which coincides with the rapid annual growth in the export value. In the last three years, the market share stabilised at a slightly lower level than in 2008 due to some setbacks in the absolute growth of the export value. Although the textile industry in Serbia has a marginal role in international trade in textile goods and does not show a high level of competitiveness, the

Table 2. Share of outward processing in the structure of Serbia's textile industry foreign trade in millions \$; **Source:** RZS (Statistical Office of the Republic of Serbia), 2012.

| Type of foreign trade activity | 2001 | 2005 | 2008 | 2011 |
|--|------|------|------|------|
| Normal T&C exports | 203 | 78 | 206 | 172 |
| T&C processing exports | 25 | 223 | 491 | 442 |
| % processing exports in total exports | 10.9 | 74.0 | 74.7 | 71.8 |
| Normal T&C imports | 161 | 210 | 682 | 592 |
| Imports for the purpose of T&C outward processing | 28 | 257 | 348 | 305 |
| % imports for the purpose of outward processing in total T&C imports | 14.8 | 55.0 | 33.7 | 34.0 |

Table 3. Indicators of Serbian textile industry competitiveness in the period 2001-2011; **Source:** Calculations performed by the author based on data provided by the International Trade Centre, 2012.

| Indicator | 2001 | 2005 | 2008 | 2011 |
|--|--------|---------|--------|--------|
| Market share of Serbian T&C exports in world imports % | 0.0605 | 0.0592 | 0.1028 | 0.0855 |
| Market share of Serbian T&C exports in EU-27 imports % | 0.1140 | 0.1113 | 0.1735 | 0.1612 |
| Absolute change of world market | - | -0.0013 | 0.0423 | 0.0250 |
| Absolute change of E-27 market | - | -0.007 | 0.0595 | 0.0472 |
| Change in world market share % | - | -2.8 | 69.9 | 41.3 |
| Change in E-27 market share % | - | -2.4 | 51.2 | 41.2 |
| RCA index | 2.30 | 1.44 | 1.58 | 1.19 |

absolute and relative growth in its market share is an important indicator of positive trends in this sector.

If we analyse the absolute change in the world market indicator and absolute change in the EU-27 market indicator, which point to the absolute growth of the market share of the textile industry of Serbia in relation to other countries, this growth is very modest, which is evident from its ranking among the top 40 out of the 229 countries observed [calculation done by the author based on data provided by the International Trade Centre, 2012]. The value of the indicator mentioned compared to the world market is 0.0423% for the period 2001 - 2008, i.e., 0.0250% for the period 2001 - 2011 (*Table 3*). Slightly better results were achieved on the EU-27 market, which points to the dominant orientation of exports to this region. In national terms, this sector has the 2nd best ranking, after the food and beverage sector, which is a clear indicator of the national export competitiveness of the textile and clothing industry. Furthermore, as far as the absolute values of exports are concerned, this industry is among the top five in Serbia.

The indicators of change in the world and EU-27 market share (41% at both levels) give much better results and put this sector of the economy of Serbia at the very top at the global level, which is an extremely important indicator of the rate of its export competitiveness. Given the structure and regional orientation of exports, it is obvious that the overall result

of change in the world and EU-27 market share in the case of the textile industry in Serbia comes from the adaption of the sector to the relevant conditions, primarily those of the EU market, as well as initial geographic specialisation, that is, the advantages of the geographic location which are particularly beneficial when trading with certain partners [Jefferson Institute, 2006:33].

In the period analysed, the revealed comparative advantage index - RCA shows values which are greater than 1, i.e., the relative share of exports of this sector in national exports is greater than that of exports of this sector in the world market in relation to overall world exports. This is also an indicator of the importance of the textile and clothing industry in Serbia, which makes it a competitive industry. However, the declining trend in the value of the RCA index was observed, especially in 2011, pointing to a decrease in comparative advantages of the specialisation of Serbian exports in this sector.

From the ITC methodology tools available, simplified national export profile - NEP, which refers to establishing the most important trend in exports of the textile industry in Serbia, was used. The star product, i.e., the product with the best export performance is women's hosiery, tariff code 6115, whose absolute export volume dynamics dominate not only the export of this sector, but is also one of the five most important products in the total export of Serbia (*Table 4*, see page 12). In 2006, this product had

Table 4. Trends in the volume of exports of the most important group of products of the textile industry of Serbia in the period 2006-2011 in millions \$; **Source:** International Trade Centre, 2012.

| Tariff code | Group of products | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------|--|------|-------|-------|-------|-------|-------|
| 6115 | Women's hosiery | 95.4 | 155.2 | 203.5 | 187.0 | 190.0 | 210.3 |
| 6203 | Men's suits and trousers | 45.7 | 53.6 | 55.7 | 38.1 | 35.7 | 46.3 |
| 6204 | Women's suits, ensembles, skirts and dresses | 34.2 | 54.3 | 57.7 | 34.2 | 29.7 | 40.0 |
| 6109 | Men's T-shirts and undershirts | 17.2 | 28.6 | 32.6 | 33.0 | 29.8 | 28.9 |
| 6108 | Women's lingerie and underwear | 14.6 | 20.2 | 17.5 | 16.9 | 17.5 | 18.2 |

a relative share in Serbian textile and clothing exports of 24.1%, while in 2011 it increased to 34.2%. The export of women's hosiery has a significant market share in world imports of these products, especially in the import of the EU-27 market. The world market share increased from 1.28% in 2006 to 1.72% in 2011, while the E-27 market share in the same year was 2.47%, i.e. 3.25%, respectively. As far as the EU market is concerned, Serbia is fourth among the countries outside the EU, right behind China, Turkey and Russia [estimation made by the author based on data provided by the International Trade Centre, 2012].

Conclusion

Exports of Serbia's textile industry have a modest share in the global structural changes that led to the domination of developing countries in international

trade in textiles and clothing. However, although this industry lost some of the key factors of its competitiveness during the period of the country's economic transition, the export value of this part of the Serbian economy has shown dynamic growth over the last ten years, which is further confirmed by the analysis of the indicators of absolute change in the world market share. The revealed comparative advantage index, which in this period has a value higher than 1, also shows the competitiveness of this sector. The results of this study support the assessment that the textile industry in Serbia is export-oriented in the long-term and that the main challenge of the future development of this sector of the Serbian economy is actually the rapid development of modern factors of competitiveness, including necessary structural changes.

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